

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: February 21, 2008

Bill Number: S.B. 893

Author: Grooms

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend Section 11-9-880 of the 1976 code, relating to forecasts of economic conditions made by the Board of Economic Advisors, adjustments to those forecasts, revenue reviews, the production of a synopsis of revenue shortfalls, and the publication of reports, to provide that the final revenue forecast produced by the Board of Economic Advisors is limited to a three percent increase over the previous year's final forecast, to provide that half of any revenue collected in excess of the final forecast must be credited to the State Budget Surplus Tax Relief Fund and half of the revenue collected in excess of the final forecast must be credited to the Department of Transportation State Non-Federal Aid Highway Fund, to amend Article 3, Chapter 11, of Title 11, relating to the General Reserve Fund and the Capital Reserve Fund, by adding Section 11-11-360, to establish the State Budget Surplus Tax Relief Fund, to provide that revenue in the Fund must be used to fund a tax credit, and to amend Chapter 6 of Title 12, the South Carolina Income Tax Act, by adding Section 12-6-3490 to provide that taxpayers who filed income tax returns during the previous year may claim a tax credit.

REVENUE IMPACT ^{1/}

Based on the BEA's February 11, 2008 General Fund revenue forecast, this bill is expected to reduce General Fund revenue by an estimated \$15,301,885 in FY2008-09.

Explanation

This bill would amend Section 11-9-880 by adding subsection (B) to require that the final forecast for the next fiscal year made by the Board of Economic Advisors (BEA) may not exceed by more than three percent the total adjusted forecast as of February fifteenth for the current fiscal year. The Office of State Budget would be required to certify the amount of the final forecast, and the General Assembly may not appropriate more than the certified final forecast amount for a fiscal year. Prior to the closing of the books each fiscal year, fifty percent of any state revenues collected in excess of the final certified forecast must be credited to the State Budget Surplus Tax Relief Fund. The remaining fifty percent must be credited to the Department of Transportation State Non-Federal Aid Highway Fund.

This bill would add Section 11-11-360 to create a separate and distinct fund from the general fund in the State Treasury styled the State Budget Surplus Tax Relief Trust Fund. This fund would accept revenues in excess of the certified final BEA forecast. This bill would also add Section 12-6-3490 to allow taxpayers that filed an individual income tax return during the preceding year to claim a tax credit to offset taxes due for the current year in an amount determined by the BEA. The BEA would determine the amount of the individual tax credit by dividing the revenue credited to the State Budget Surplus Tax Relief Trust Fund by the estimated number of individuals filing individual income tax returns. Based on the BEA's February 11, 2008 General Fund revenue estimate of \$7,336,362,115 for FY2008-09, this amount is 3.2 percent over the BEA's General Fund revenue estimate of \$7,107,825,466 for FY2007-08. The FY2008-09 General Fund revenue estimate exceeds the three percent limitation by \$15,301,885. Under this bill, fifty percent, or \$7,650,094.50, would be set aside in

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the State Budget Surplus Tax Relief Trust Fund and used for nonrefundable income tax credits. According to data on income tax returns from the Department of Revenue, nearly one-third of the State's two million taxpayers filing income tax returns do not have any state income tax liability. Dividing \$7,650,094.50 by an estimated 1,366,780 taxpayers that are expected to file an individual income tax return in tax year 2008 with a state income tax liability yields a nonrefundable income tax credit to each taxpayer of \$5.60 to offset taxes due on their 2008 income tax returns. The remaining fifty percent, or \$7,650,094.50, would be credited to the Department of Transportation State Non-Federal Aid Highway Fund. In total, this bill would reduce General Fund revenue by an estimated \$15,301,885 in FY2008-09.

/s/ WILLIAM C. GILLESPIE, PH.D.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.